

KENTUCKY DEPARTMENT OF EDUCATION

STAFF NOTE

Information and Action/Discussion Items:

- The Auditor of Public Accounts' Statewide Single Audit Report for year ended June 30, 2004 (Information Item)
- Financial or program functions that should be audited in fiscal year 2006 using the Auditor of Public Accounts to perform an agreed upon audit procedure for the review (Action/Discussion Item)

Applicable Statute or Regulation:

KRS 43.090, KRS 45.149 and KBE Internal Audit Charter

Action Question:

Should the Kentucky Board of Education approve staff's recommendation for areas to be audited by the Auditor of Public Accounts in FY 2006?

History/Background:

Existing Policy. Each year the Auditor of Public Accounts (APA) conducts a Statewide Single Audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report. As a part of the statewide audit work the APA issues a report of findings and recommendations to agencies that were included in their examination. Four findings and recommendations have been cited in the Auditor's report for fiscal year 2004, to which the Department of Education management has responded with action plans to comply with their recommendations. The department has already taken corrective action and internal control procedures have been updated accordingly. (See attached Auditor of Public Accounts' Statewide Single Audit Report for Year Ended June 20, 2004.)

At the April 2004 meeting of the KBE Audit Committee, the committee decided to utilize the services of the Auditor of Public Accounts (APA) to perform internal audits previously performed by the KDE internal auditor. The Kentucky Board of Education later adopted a revised Audit Charter to provide for this function. The Office of Internal Administration was asked to provide a list of potential areas for audit consideration and make a recommendation of the functions that should be audited in FY 2006.

The internal auditor, John Herb, audited the areas listed below during his employment. The Auditor of Public Accounts in FY 2005 subsequently reviewed some of those functions. Other areas not previously audited were also considered for audit in FY 2006 as shown below.

<u>Audits</u>	<u>Heeb's Audit</u>	<u>APA Prior</u>
• Purchasing Process	FY 2002	FY 2004
• Cash Receipts and Security Procedures	FY 2002	
• Personal Service Contract and Master Agreements	FY 2002	FY 2004
• Expenditures of Discretionary Grant Funds	FY 2001	
• Budget Development Process	FY 2001	
• General Operating Policies and Procedures	FY 2001	
• Procurement Card Program	FY 2002	FY 2004
• Plan for Monitoring	FY 2000	
• Risk Assessment	FY 2001	
• Internal Financial Reports	FY 2001	
• Inventory Process	FY 2002	
• Transactions with Cooperatives		FY 2004

Other areas considered for audits in FY2006:

- Audit of KSB and KSD internal controls and purchasing/financial activity
- Audit of compliance of sub-recipient monitoring to Title IA federal requirements
- Audit of KDE compliance with the Federal Cash Management Act
- Audit of Indirect Cost Rate calculations and applications
- Review to determine if we have had any significant lapsed funds of Federal Grants

Staff Recommendation(s) and Rationale(s):

The Office of Internal Administration and Support recommends the following areas to be audited in FY 2006:

- (1) Indirect Cost Rate calculations and applications;
- (2) Compliance with the Federal Cash Management Act, because if there was noncompliance there could be exposure for interest and penalty to be paid back to the federal agency; and
- (3) Compliance with Title I requirements for sub-recipient monitoring.

Item 1 would determine if the indirect cost rates that we pay to local school districts are prepared accurately and consistently across the districts. Currently, there is a large variance between the rates of different districts. Items 2 and 3 are areas that are audited periodically by the Federal Agency for compliance and KDE has not been audited by the United States Department of Education (USDOE) on these topics in several years.

Impact on Getting to Proficiency:

Through internal audit reviews of administrative internal controls and procedures, we can assure the public that our processes are efficient and funds are being disbursed appropriately. Efficient processes and appropriate controls will provide better administrative services to schools, districts and program offices, thereby allowing them to concentrate on improving programs that impact student learning.

Groups Consulted and Brief Summary of Responses:

KDE has consulted with the Auditor of Public Accounts relative to a continuation of services for internal audit functions. The APA is receptive to a continuation of this relationship and will consider on a case by case basis the scope and costs for each project they are requested to perform.

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